

**Massachusetts Management
Accounting and Reporting System
Fixed Assets Subsystem
Policy Manual
and User Guide – PART 1
April, 2003**



TABLE OF CONTENTS – PART 1 - POLICIES

INTRODUCTION	3
CHAPTER 1 GLOSSARY OF TERMS	6
CHAPTER 2 THE FIXED ASSET CYCLE.....	12
CHAPTER 3 ACQUISITION.....	13
CHAPTER 4 RECORDING INCLUDING DEPRECIATION.....	21
CHAPTER 5 ACCOUNTING AND MANAGEMENT	27
CHAPTER 6 REPORTING	31
CHAPTER 7 SOFTWARE.....	35
CHAPTER 8 INFRASTRUCTURE	37
QUESTIONS AND ANSWERS TABLE	40

**MASSACHUSETTS MANAGEMENT ACCOUNTING
AND REPORTING SYSTEM
FIXED ASSET SUBSYSTEM
POLICY MANUAL AND USER GUIDE – PART 1**

INTRODUCTION

Welcome to the Massachusetts Management Accounting and Reporting System (MMARS) Fixed Asset Subsystem User Guide Manual. **This is the first of two parts. This first part deals with the policies surrounding fixed asset transactions, the second with systems and procedures. The second part and a redrafted first part will be released upon implementation of the NewMMARS system (approximately the opening of fiscal 2005.)**

This policy manual attempts to be all-inclusive, providing the Commonwealth's fixed assets policies found in statute, Comptrollers Memo's and other various sources of information. The goal of the guide is to be a reference for those in State Government who are responsible for fixed asset management, including but not limited to Department Heads, Chief Fiscal Officers, MMARS and GAAP liaisons.

Pursuant to Massachusetts General Laws, Chapter 7A, the Office of the Comptroller has the responsibility for establishing the state accounting system and has full authority to prescribe the requisite forms and books of accounts, which includes the classification and accounting of fixed asset activities. The purpose of the Commonwealth Policy Manual is to provide Commonwealth Departments with guidance for the appropriate classification and processing of fixed asset transactions in compliance with state finance law. The term "Department" in this manual refers to MMARS Departments. "Department" includes state agencies, boards, offices, institutions, departments, divisions, constitutional offices, independent agencies, commissions and elected offices of the Commonwealth within the Executive, Legislative and Judicial Branches.

Departments have a responsibility for establishing internal control systems and procedures that assure adherence to and compliance with the policies set forth by this office. As specified in the Internal Control Act (Chapter 647 of the Acts of 1989), internal procedures should assure safeguards, validity, completeness, timeliness, ownership, authorization, and accuracy of all information processed through the accounting systems. Departments are responsible for documenting and distributing internal procedures to their staff in order to assure compliance to these policies within their Department. The Office of the State Auditor has statutory authority to audit departments for adherence to the policies and procedures contained herein. The Commonwealth's external auditors also may audit departmental records and internal controls for fixed assets. Please refer to the Office of the Comptroller's *Internal Control Guide* and related material for additional information. This material can be accessed through the Comptroller's web page: <http://www.osc.state.ma.us/>.

Where appropriate, statutes governing state finance and federal statutes are referenced within the Manual allowing the reader to identify the source and foundation of policy.

The Comptroller of the Commonwealth is responsible for designing and maintaining statewide systems, which assure financial management standards. The Comptroller is authorized to approve any accounting system used in the Commonwealth, to ensure that the system is capable of transmitting accurately and timely data to the state accounting system, the Massachusetts Management and Reporting System (MMARS), and that the system meets other state financial law and federal law requirements. The Comptroller must approve exceptions to this policy. The Fixed Asset subsystem is an integrated component of MMARS. Its purpose is to provide a uniform and fully automated vehicle to account for and report on the GAAP and non-GAAP fixed assets owned by the Commonwealth's Departments.

The Office of the Comptroller manages the Commonwealth's fixed asset subsystem.

This manual covers fixed asset policy relating to these items:

- Acquisition
- Recording
- Accounting and Management
- Reporting
- Software
- Infrastructure
- Depreciation and Useful Lives

The manual includes a glossary of terms defining items in accordance with fixed asset management and reporting responsibilities. It provides a listing of the events and the type of fixed asset transactions that are to be used. It is our intent to provide updates to this Manual as needed. For this reason it may be more useful for the reader to access it frequently on the intranet rather than printing it for distribution. The Comptroller's web site address is <http://www.osc.state.ma.us/>.

It is the intent of the Office of the Comptroller to provide training to appropriate department managers and key personnel in the implementation and maintenance of the Fixed Asset subsystem, including related policies and procedures.

IMPLEMENTATION OF GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT NUMBERS 34 and 35 (GASB 34/ 35)

The GASB issued Statements 34 and 35, Basic Financial Statements - and Management's Discussion and Analysis - for state and local governments and Basic Financial Statements and Management's Discussion and Analysis – for public institutions of higher education during 1999. The Statements establish financial reporting standards for state and local governments, public institutions of higher education, cities, towns, villages and special purpose governments such as school districts and public utilities. They establish that the basic financial statements and required supplementary information (RSI) for general-purpose governments should consist of:

- Management's discussion and analysis (MD&A) which should introduce the basic financial statements and provide an analytical overview of the government's financial activities.
- Basic Financial Statements include Government - Wide financial statements, Fund Financial Statements and Notes to the financial statements, required supplementary information (RSI).

The objective of the Statements is to enhance the understandability and usefulness of the general- purpose external financial reports of state and local governments to the citizenry, legislature, oversight bodies, and investors and creditors.

The Office of the Comptroller (CTR) implemented GASB 34 / 35 in state fiscal year 2002. The financial statements, MD&A and RSI will be done at CTR. The statements require the inclusion of **infrastructure** assets and depreciation of assets as part of the GAAP Fixed Asset reporting currently done by the Commonwealth. **Infrastructure assets include roads, bridges, water and sewer pipes, dams, etc. currently not reported by the Commonwealth as GAAP Fixed Assets.**

It is important to realize that GASB 34 / 35 ***does not change budgetary or statutory accounting.*** No infrastructure or depreciation will change individual funds or budgetary fund activity. However, the Commonwealth is taking the opportunity to revisit its fixed assets policies and procedures as part of this implementation.

CHAPTER 1 - FIXED ASSET SUBSYSTEM – GLOSSARY OF TERMS

Unless otherwise noted, the following definitions are used for purposes of: fixed asset management and reporting responsibilities.

ACQUISITION DATE	The date that the fixed asset was put in service by the Commonwealth. This is the first day of the asset's useful life.
ANCILLARY COSTS	All supporting costs incurred when originally placing an asset into the use for which it was intended. This includes, but is not limited to, legal costs, deed recording costs, registration, installation, shipping and delivery charges.
ASSET	All property, tangible and intangible, that is in the lawful possession of a department. Cash investments, monies due, consumable materials and supplies, land, buildings, equipment, etc. constitute one category of assets. An intangible asset, such as patents, rights, goodwill, etc., is a second category. In its basic sense, an asset has 3 characteristics: 1. It provides a probable future "economic benefit" – it can be used 2. It can be controlled or have access to it controlled – it can be safeguarded. 3. It has rights associated with it that may have occurred in the past – it can be owned at a cost.
BARGAIN PURCHASE	One of the criteria for a capital lease . At the end of the lease period, being able to purchase the item for less than its fair market value at the end of the lease. It is immediately known at signing of the lease that purchase is assured – it is a "great deal." This can be analogous to salvage value.
BUILDING	State owned units that are fabricated, framed or constructed, designed to stand permanently and covering a space of land, including fixtures and sub-surface structures in which people work or live and items are stored.
CAPITAL LEASE	The state has "in substance" purchased the item, even though "rent" or a lease payment exists. Therefore substantially all the risks and benefits of ownership are assumed by the lessee (department). A capital lease is viewed as an installment purchase of property rather than the rental of property. In essence, the department has acquired an asset through the repayment of funds over time.

CAPITALIZATION THRESHOLD	The point at which a purchase of a singular asset exceeds the amounts set by the Comptroller. If a purchase exceeds the capitalization thresholds set forth, it is a GAAP fixed asset and it is capitalized. If not, it is a Non-GAAP fixed asset and the payment is treated as an expenditure. However, Non-GAAP fixed assets are inventoried for internal control purposes (see Chapter 6.)
COMPTROLLER	The Office of the Comptroller of the Commonwealth as established by Massachusetts General Laws (MGL) Chapter (Ch) 7A.
CONSTRUCTION	All associated cumulative cost (i.e., design, survey, furnishings and fixtures, etc.) related to a capital project that results in a fixed asset of the Commonwealth. (Upon completion of the capital project, i.e. the point at which the asset is placed in service for its intended use, the balance in the construction in progress account is transferred to an appropriate asset account such as buildings).
CONSTRUCTION IN PROGRESS (WORK IN PROCESS)	All cumulative costs related to a partially completed capital project including software (see construction).
DCAM	Division of Capital Asset Management and Maintenance is a division of the Executive Office for Administration and Finance responsible for the acquisition, construction and improvements to Commonwealth owned land and buildings per MGL Ch.7§ 4A.
DEPARTMENT	Any subdivision of the government of the Commonwealth including, but not limited to, any executive office, agency, division, bureau, board, commission or committee therein.
DEPRECIATION	The method of allocating the HISTORICAL COST (not the useful life) of a fixed asset over its estimated useful life in a systematic and rational manner. The estimated useful life is the estimation of time that the asset will provide the benefit of use.
EQUIPMENT	The implements used in an operation or an activity. This includes, but is not limited to, machinery, vehicles, computers (hardware and software), other electronic and/or electrical devices and furnishings.
FAIR MARKET VALUE	The point where a willing buyer and a willing seller agree on a price in any type of transaction at any point in time.
FIXED ASSETS	All tangible property owned by the Commonwealth (real and personal)

	such as land, buildings, infrastructure and equipment, etc., with a useful life of more than one year and used in departments. (References to assets in this document refer only to fixed assets).
FA FORM / TRANSACTION	The Fixed Asset Acquisition Form must be used to record the acquisition of all land regardless of cost and all buildings and equipment with an original cost of, in most cases, \$50,000 or more (GAAP Fixed Asset). Departments have the option of recording non-GAAP fixed assets via the FA.
FB FORM / TRANSACTION	The Fixed Asset Betterment Input Form must be used for any and all improvements with a cost of, in most cases, \$50,000 or more, also on any and all improvements regardless of whether the cost of the original asset is \$50,000 or more. Betterments done to buildings and land assets, as part of a project managed by DCAM will be recorded to the fixed asset subsystem via a FB produced by PARS. Betterments done to road infrastructure will be recorded to the fixed asset subsystem also via a FB produced by PARS. It is the goal of the Comptroller to also include the recording of betterments to non-road infrastructure via PARS as well.
FC FORM / TRANSACTION	The Fixed Asset Modification Input Form is used only to change/modify erroneous or omitted information previously entered into the system. It is not to be used to enter a betterment, transfer, or any item that one of the other existing forms is designed to accomplish. The FC and supporting documentation must be sent to the Office of the Comptroller, Capital Accounting Bureau for approval.
FD FORM / TRANSACTION	The Fixed Asset Disposition Input Form is used to record assets that have been destroyed, sold, traded, lost, stolen, or transferred to a non-state entity.
FT FORM / TRANSACTION	The Fixed Asset Transfer Input Form is used to record assets that which have been transferred between departments (excluding Authorities).
FIXED ASSET SUBSYSTEM	An integrated component of the Massachusetts Management Accounting and Reporting System (MMARS). Its purpose is to provide a uniform and fully automated vehicle to account for and report on the GAAP and non-GAAP fixed assets owned by the Commonwealth's departments.
FURNITURE	Movable articles in a room or establishment that render it fit for working or living. It includes items such as chairs, tables, cabinets, bookcases, etc.

GAAP FIXED ASSETS	Buildings, equipment, infrastructure, vehicles and construction in progress (including all furnishings and fixtures) with a historical unit cost of, in most cases, \$50,000 or more and all land, historical treasures and works of art.
HISTORICAL COST	Original Cost of an asset as distinct from the replacement cost. This would be the total cost of an asset when acquired, including ancillary asset cost. Therefore, it is the total cost of acquisition, net of discounts and refunds, plus all the expenditures to place and ready the asset for its intended use.
HISTORICAL TREASURES / WORKS OF ART	An asset (building, work of art, artifact, place) that has been declared historical by either the federal government, the Commonwealth or the Office of the Comptroller. These items are not depreciated as long as they are maintained. The historical cost of these items may be at an appraised value if it is donated.
IMPROVEMENT	An addition, alteration, betterment or structural change to an asset, which results in its greater durability or extended useful life or to comply with current code of regulations. An improvement or “betterment” is capitalized.
INFRASTRUCTURE	General government fixed assets that are immovable and of value only to the governmental unit unless sold. Examples are roads, bridges, tunnels, dams, beaches, pedestrian and bicycle paths, drainage systems, lighting systems, water and sewer systems, piers, boardwalks and similar items.
INVENTORY	The process of preparing an itemized list recording land, buildings, equipment and other tangible property having an identity; which remains constant. This process allows for accountability and results in an asset listing for the purpose of asset management.
LAND	Ground, earth/soil, right of way, parklands and the water thereon for which the Commonwealth has title.
MAINTENANCE / REPAIR	Day-to-day, routine, normally recurring repair and upkeep. Maintenance activities keep an asset in good working condition throughout its estimated useful life. Work required returning a fixed asset to a condition that it may continue to be effectively used for its intended purpose by overhaul or replacement of parts or materials, which have deteriorated due to weather or wear and tear. Projects that do not exceed the capitalization thresholds contained herein.

NON-GAAP FIXED ASSET	Buildings, vehicles, infrastructure and equipment, including computer software, with a useful life of more than one year and a historical unit cost between \$1,000 and \$49,999 , in most cases, including all electronic and computer components.
OPERATING LEASE	A lease of an asset which treats the asset as not being owned; an operating lease gives the department the right to use the asset for a specific period of time. A lease of this nature is treated as an expense.
PARS	Project Accounting and Reporting System, a subsystem of MMARS.
PRESENT VALUE	Value today (or any specific date) of an amount or amounts to be paid or received <i>later</i> , discounted at a given interest rate or discount rate.
PROPERTY	Any material item, structure, or object (real or personal) owned by the Commonwealth.
SALVAGE VALUE	The value of the fixed asset at the END of its USEFUL LIFE. The depreciation process will use this number. This can be from an appraisal or in the case of a lease agreement, it is the purchase value at the end of the lease contract. If the asset does not have a salvage value, use \$0.
SINGULAR ASSET	An individual asset among a group of assets purchased used to determine whether the capitalization threshold has been met.
SURPLUS PROPERTY	Any property owned by the Commonwealth that a department no longer needs to support its operations. This includes property that the department has not formally declared as surplus.
TRANSFER OF OWNERSHIP	Where right to an asset transfers in an exchange. Usually a deed, invoice, bill of sale, etc. are rendered in the exchange.

CHAPTER 2 – THE FIXED ASSET CYCLE

POLICY TITLE	The Fixed Asset Cycle
DATE ISSUED	May 21, 2003
POLICY #	2-1
PAGE(S)	1

**POLICY
2-1**

The fixed asset cycle is the accounting cycle relating to the ownership of an asset. This cycle is composed of the Budgeting, Procurement, acquisition, Recording, Accounting, Reporting and Disposal of an asset.

Each of these steps has its own specific functions and traits, but each of these traits interrelates with one or more of the other items.

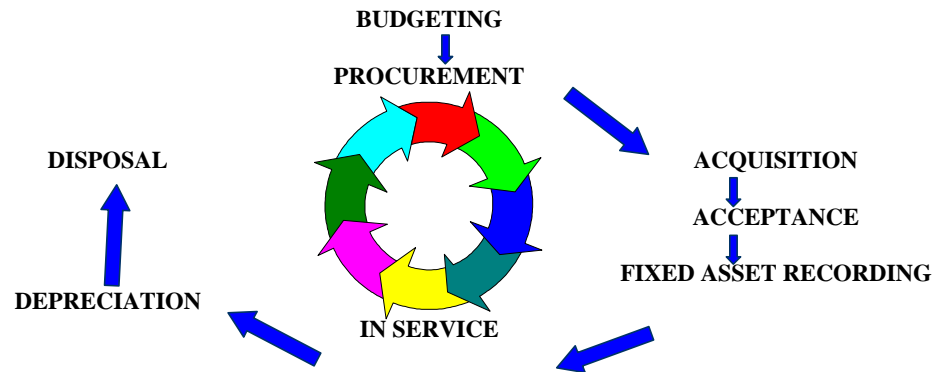
Each stage of an asset's life has different accounting, reporting and management responsibilities. These stages run from the initial acquisition of the asset to the ultimate disposition of the asset.

PURPOSE

To properly account for the useful life of an asset.

COMPLIANCE

All records relating to fixed assets must be in accordance with existing laws and regulations of the Commonwealth.



CHAPTER 3 – ACQUISITION

POLICY TITLES	ACQUISITION, ASSET COST, HISTORICAL COST, SELF CONSTRUCTED ASSETS AND HISTORICAL COST, LEASE PURCHASES AND HISTORICAL COST, EMINENT DOMAIN, ACQUISITION OF TWO OR MORE ASSETS, GROUP PURCHASES OF ASSETS, RAZING A BUILDING
DATE ISSUED	May 21, 2003
POLICY #	3-1 through 3-8
PAGE(S)	8

ACQUISITION

ALL FIXED ASSET ACQUISITIONS MUST FOLLOW PROCUREMENT LAWS ESTABLISHED BY THE COMMONWEALTH.

POLICY 3-1 Acquisition is defined for this purpose as the obtaining of a fixed asset by the Commonwealth. This acquisition can be done by, but is not restricted to, a cash purchase, receipt of a donation, construction, lease purchase or eminent domain, regardless of funds used.

An asset is owned by the Commonwealth when the full title of the asset rests with the Commonwealth. The custodial responsibilities of an asset will reside within a particular department.

PURPOSE To acquire an asset and list the type of acquisition method used by the Commonwealth.

COMPLIANCE All acquisitions of fixed assets must be done in accordance with existing laws and policies of the Commonwealth.

ASSET COST

POLICY 3-2 The cost of purchasing an asset includes all costs necessary to put that asset into existing use and location, including but not limited to freight, insurance and installation (i.e., ancillary costs.) These costs may include legal costs, eminent domain costs or environmental remediation. Unless otherwise mentioned, the cost of an asset will be recorded as the **historical cost** of the asset.

PURPOSE To assign the appropriate and comprehensive cost of an asset.

COMPLIANCE Generally Accepted Accounting Principles for Governments.

Questions and Answers

- Agency ABC is building a **new** building. To make way for the building, ABC has to demolish an existing structure. What items are included in the cost of the building?

The cost of buildings should include **all expenditures related directly to their acquisition or construction**. These costs include (1) materials, labor and overhead costs incurred during construction and (2) professional fees and building permits. All costs should be included from excavation to completion. **If there is an old building on the site that needs to be demolished for the new building to be constructed, then the cost of demolishing the old building is a cost of getting land ready for its intended use and is recorded as a land improvement. (See the section below on Razing a Building.)**

- Agency ABC is building a **new** road. To make way for the road, ABC has to acquire land via eminent domain. The land is absolutely necessary to complete the road. Road costs also include signage, striping, landscaping, drainage in addition to design, legal and standard construction costs. What costs are included as the cost of the road?

The cost of the road should include all of these costs to get it ready for use. Roads are designated as a “system” of a singular asset. All the costs tied to the initial operation of the road should be included. Any further maintenance on the road beyond opening *may or may not* be a betterment. (See **Betterments**.)

HISTORICAL COST

POLICY 3-3 **Historical Cost** is the original acquisition cost of an asset, including all ancillary costs involved in putting that asset into its intended use. Historical cost or estimated historical cost will be used as the total asset cost whenever it is directly known. All costs needed to get the asset to the point of **acceptance as an asset** should be included as part of historical cost. These costs include, but are not limited to, freight, transportation, installation and professional fees.

PURPOSE To have a unified method for assigning value to the assets of the Commonwealth.

COMPLIANCE Generally Accepted Accounting Principles for Governments.

Historical cost is the foundation for acquisition and valuation in accounting. It is the singular standard for setting basis of ownership. However, in some instances, historical cost may not be available. In these cases, the Commonwealth will work with its external auditors to find a reasonable basis for determining historical cost. This may include, determining current

replacement cost and then deflating that cost to when the asset was put in service. **Any new asset or betterment, including infrastructure must be reported at full historical cost.**

Historical Cost can be determined by the following:

- The amount of cash paid for the entire purchase of the asset.
- The **fair market value** of a donated asset at the time of donation.
- The sum total of all construction costs including design of an asset.

SELF – CONSTRUCTED ASSETS AND HISTORICAL COST

POLICY 3-3 Assets that are constructed should be priced at the total costs to build the asset. **This includes both direct and indirect costs.**

PURPOSE To assign the appropriate and comprehensive cost of an asset.

COMPLIANCE Generally Accepted Accounting Principles for Governments

LEASE PURCHASES AND HISTORICAL COST

POLICY 3-4 A lease purchase arrangements will be evaluated by Departments and determined to be either a **capital lease or an operating lease**. Assets that are acquired through a lease purchase shall be recorded at the lower of the present value of the minimum lease payments or the fair market value of the leased property. The lease itself will continue to be maintained in MMARS as in the past.

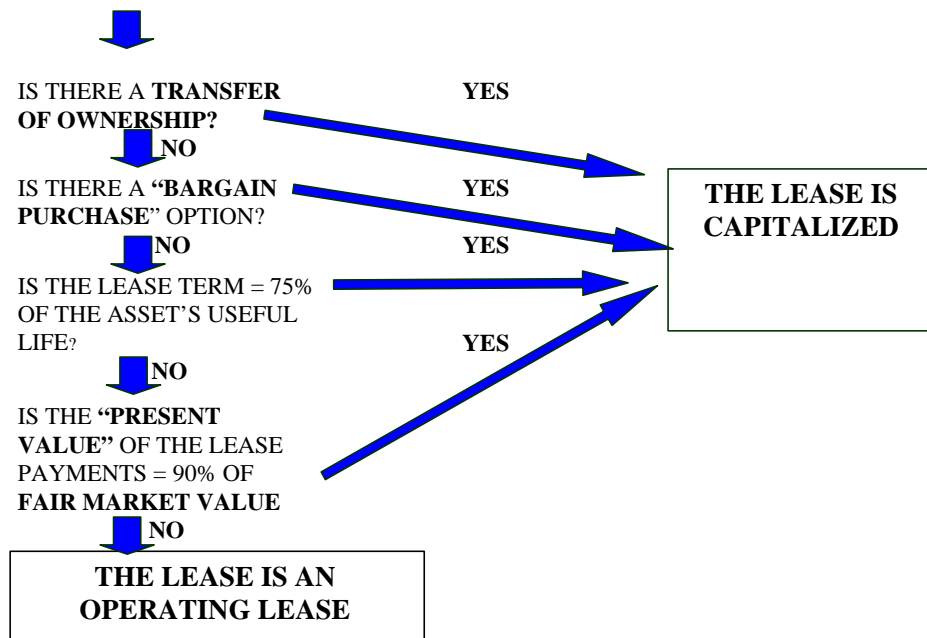
PURPOSE To assign the appropriate and comprehensive cost of an asset.

COMPLIANCE Generally Accepted Accounting Principles for Governments.

Every lease is different. Each must be analyzed to check if the lease is either a capitalized lease or an operating lease. There are 4 characteristics of a capital lease. **ANY ONE OF THESE CRITERION WILL TRIGGER CAPITALIZATION.**

Every lease agreement must be judged separately and distinctly. The Chief Fiscal Officer, in conjunction with the Office of the Comptroller's Accounting Bureau is responsible for the proper presentation of a lease.

LEASE AGREEMENT



Based on the suggestion of a user of this guide, an on-line interactive lease decision calculator (capital versus operating) has been developed and is on the Comptroller's web site as soon as possible.

Question and Answer on Capital vs. Operating Lease

- Lessor Company and Commonwealth agency ABC sign a lease agreement dated January 1, 20xx, that calls for the Lessor Company to lease equipment to ABC beginning on January 1, 20xx. The lease agreement has the following terms and conditions:
1. The term of the lease is for five years, and the lease agreement is noncancelable, requiring equal rental payments of \$25,981.62 at the **beginning of each year (annuity due basis)**.
 2. The equipment has a fair market value at the inception of the lease of \$100,000, an estimated economic life of five years, and no salvage value.
 3. ABC pays all the ancillary costs directly to vendors of the Commonwealth, except for property taxes of \$2,000 per year, which are the responsibility of Lessor.
 4. The lease contains no renewal options and the equipment reverts to Lessor at the termination of the lease.

Question and Answer on Eminent Domain

- Land was taken for the Central Artery / Tunnel process for the right of way. The final settlement with the landowner was \$1,000,000. The legal fees to obtain the land paid by the Commonwealth were \$100,000. The title transfer fees on the conveyance and other ancillary costs were \$10,000. At what historical cost is this transaction?

The total of \$1,110,000 would be added to the project as part of “right of way” or type L (land) on the Commonwealth’s books. The legal fees and other fees are necessary parts of readying the asset for use by the Commonwealth.

ACQUISITION OF TWO OR MORE ASSETS

POLICY 3-6

When two or more assets are obtained at one time and their individual costs **are not readily known** (i.e., land and building purchased as one), the individual costs are allocated to the assets based on their relative fair market values at the time of acquisition. These costs are simply a ratio of the initial acquisition cost vs. their relative fair market values.

PURPOSE

To assign each individual asset its own cost based on its relative value.

RESPONSIBILITY

Department

Question and Answer on Acquisition of Two or More Assets

- Agency ABC decides to buy a building for \$80,000 to house its offices from a private entity. The seller gave ABC a discount on the sale. The seller is going out of business. At the sale, the fair market value was determined by the appraisal to be:

	Fair Market Value
Equipment (Plant)	\$25,000
Land	25,000
Building	50,000
Total	<u>\$100,000</u>
Capitalization allocated by Fair Market Value:	
Equipment = \$25,000 / \$100,000 fair market value x \$80,000 purchase price =	\$20,000
Land = \$25,000 / \$100,000 fair market value x \$80,000 purchase price =	20,000
Building = \$50,000 / \$100,000 fair market value x \$80,000 purchase price =	40,000
Total Purchase Price	<u>\$80,000</u>

GROUP PURCHASE OF ASSETS

POLICY 3-7	When two or more assets are purchased at the same time and their individual cost is known, their cost will be the cost plus any costs associated with putting those assets into use. However, if these additional costs are not directly assigned to a particular asset, they will be apportioned to the cost of all of the assets in a proportional manner. This will yield a cost for each unit, which will include the assets' direct costs, plus any ancillary costs incurred with putting the asset into service.
PURPOSE	To assign each individual asset its own cost based on its relative or direct value.
RESPONSIBILITY	Department.

Question and Answer on Group Purchases of Assets (See also Capitalization Thresholds)

- Agency ABC purchased a computer network of 100 PC's, servers and cabling for the server for \$200,000. The average cost per PC was \$1,000. The servers, cabling and installation accounted for the other \$100,000. What should be capitalized?

The servers and the cabling needed to get the network operational should be capitalized as they are worth \$100,000. **The individual PC's are below the capitalization threshold (see Capitalization Thresholds).** Asset type would be K. If there is more than one server that is part of the singular network, and the network in total has a value of over \$100,000, the server is a necessity of the network's operation and therefore, would be capitalized.

RAZING A BUILDING

POLICY 3-8	When a building is razed in order to clear the area for the construction of another building, the cost of razing the original building is recorded to land improvements. This will be input as a betterment . This cost will then be associated with the parcel of land, not any future building. The disposal of the original building will be recorded on an FD transaction.
PURPOSE	To account for the renovation in a manner consistent with GAAP.
RESPONSIBILITY	Department

When property has been purchased for the purpose of constructing a building, all costs incurred up to the *excavation of the new building* are considered **land costs**. **Razing of old buildings and reshaping of the land are considered costs of the land because these costs are necessary to get the land in condition for its intended purpose.** Any **proceeds** obtained in the process of getting the land ready for its intended use, such as salvage of the old building or receipts from

the sale of timber that has been cleared, **are reductions in the cost of the land.** (Also see the section above on **Asset Cost.**)

CHAPTER 4 – RECORDING

POLICY TITLES	RECORDING, STATEWIDE FIXED ASSET NUMBER, FIXED ASSET FUNDING SOURCE, USEFUL LIVES AND DEPRECIATION, TAGGING OF ASSETS, LEASE PURCHASE, LIBRARY BOOKS
DATE ISSUED	May 21, 2003
POLICY #	4-1 through 4-7
PAGE(S)	6

POLICY 4-1

Recording is the act of entering a newly acquired asset on the Fixed Asset Subsystem. When applicable, an asset will be entered onto the Fixed Asset Subsystem by the Department using an approved entry form in accordance with this guide. Details of this entry will be based on the type of asset and the purchase method. **The asset will be recorded onto the system within seven (7) days of acquisition. The only exception is when granted a specific, written waiver by the Office of the Comptroller.** Building and land assets that are acquired / constructed as part of a project managed by DCAM will be recorded to the Fixed Asset Subsystem via a FA produced by PARS. **All infrastructure projects undertaken after July 1, 2001 will also be recorded to the Fixed Asset Subsystem via a FA produced by PARS or other method approved by the Comptroller. By recording in PARS, the Commonwealth will be able to ascertain a fairly stated Construction in Process balance for infrastructure as well as vertical assets (buildings, etc.) at any given time.**

All GAAP fixed assets must be recorded in the Fixed Asset Subsystem of MMARS. Departments have the option of using the Fixed Asset Subsystem to record those assets not required to be entered on the Subsystem (Non-GAAP Fixed Assets) or must maintain an inventory of such assets in a department system.

PURPOSE: To properly account for and record those items owned by the Commonwealth.

RESPONSIBILITY Department

Question and Answer on Timing of Recording

- Agency ABC buys a fleet of vehicles. An encumbrance has been set up previously. The purchase order was sent to CAR Corp on 12/1/x4. The cars were delivered on 12/15/x4. After modification to specifications, returns of defective vehicles, etc., the cars were finally ready for service, registered at RMV and accepted by Agency ABC on 1/15/x5. What is the date of recording?

Procurement rules state that a PV should be used after commodities or services have been received and accepted by a department to make payments.¹ Therefore, a liability / encumbrance exists as of 12/1/x4. However, the expenditure / fixed asset would not be recorded until 1/15/x5, as this is the date of receipt and acceptance. To avoid a management comment under audit, the agency has until 1/22/x5 to record the fixed asset in MMARS.

STATEWIDE FIXED ASSET NUMBER

POLICY 4-2

Every asset entered into the system via an FA document will be assigned a unique identification number (statewide fixed asset number). This number will be comprised of three components:

- FISCAL YEAR OF THE ORIGINAL ACQUISITION (FOUR DIGITS)
- ASSET TYPE (1 CHARACTER LETTER)
- SYSTEM GENERATED SEQUENTIAL NUMBER (SIX DIGITS)

Every subsequent transaction against the asset will use the statewide fixed asset number as the key identification field.

PURPOSE

To ensure that each individual asset has a unique identification within the system.

RESPONSIBILITY

Office of the Comptroller

FIXED ASSET FUNDING SOURCE

POLICY 4-3

When an asset is acquired the funding source(s) of the asset shall always be recorded. If the funding source cannot be determined the asset shall be recorded under the general fund.

PURPOSE

To properly report purchase expenses under the Sources and Uses of Funds Statement. To accommodate the reporting of federally purchased assets.

¹ 801 CMR 21.08

COMPLIANCE Generally Accepted Accounting Principles; OMB Circular A-102, Section G; OMB Common R.

USEFUL LIFE OF AN ASSET – RECORDING OF DEPRECIATION

POLICY
4-4

Departments will not be responsible for the depreciation of assets. The Office of the Comptroller will calculate and record depreciation for GAAP purposes only. Upon disposal of an asset, the Department must notify the Capital Accounting Bureau who in conjunction with the Financial Reporting Bureau will work to determine gain or loss.

The useful life of an asset will be assigned depending on the asset type. Useful life estimations are developed from various sources. These include estimates from the Operational Services Division, the Internal Revenue Service, Authorities financial statements in the Commonwealth and engineering estimates. They may be changed at any time based upon experience.

Useful life is vital, as it forms the divisor in the calculation of **depreciation. Depreciation is the mechanism to allocate the cost of an asset, not its life. It is an estimate.** If a useful life is changed, the Financial Reporting Bureau would initiate a prospective change in estimate.

Depreciation will be calculated on a straight-line basis, with no half-year conventions. (In other words, a full year of depreciation will take place in the year of acquisition and none in the final year of its useful life.)

PURPOSE: To assign an estimated useful life for the asset for the purposes of asset management and calculation of depreciation.

RESPONSIBILITY: Office of the Comptroller.

The following are the current estimates (for FY 2002) of useful lives:

ASSET CATEGORY	MMARS Code	YEARS OF LIFE	YEARLY RATE
----------------	------------	---------------	-------------

Buildings: Type 1 – Fireproof construction Type 2 – Non-combustible construction (as classified by the Department of Public Safety in accordance with 780 CMR 402.0 and 403.0) Type 3 – External masonry wall construction Type 4 – frame construction (as classified by the Department of Public Safety in accordance with 780 CMR 404.0 and 405.0)	B	40	2.5%
Building/improvements (FB Transaction)	B (separate group)	40	2.5%
Leasehold improvements	B (separate group)	5 (or term of lease, whichever is <i>greater</i>)	20%
Equipment	E	10	10%
All GAAP Fixed Asset Computer equipment and Software less than \$1 million.	K	3	33.33%
Software with asset cost greater than \$1 million	S	7	14.3%
Other office and other program equipment: Items such as copiers, ovens, washers, dryers, office files and capitalized office and program supplies.	E	5	20%
Life safety improvements: Building or leasehold improvements or equipment acquisitions made solely to satisfy the requirements of any department regarding life safety or physical environment. Purpose must be documented.	E	5	20%
Motor vehicles	V	5	20%
Used motor vehicles	V	5	20%
Residential furnishings	E (separate group)	10	10%
Office furnishings	E (separate group)	10	10%

For Infrastructure, useful lives (source of information included) are as follows:

Roads, tunnels, bridges and ramps	I	40	2.5%
Improvements to Road Infrastructure	I	40	2.5%
Beach Improvements, Piers, Boat Ramps, Paved Pedestrian Ways, Paved Bike Paths and all Boardwalks	I (groups)	25	4%
Canals, waterways, seawalls and drainage facilities	I (groups)	20	5%
Water distribution systems and Dams	I (groups)	50	2.5%
Municipal Sewer systems	I	50	2.5%

Again, these useful lives will be subject to change.

TAGGING OF ASSETS

**POLICY
4-5**

Physical property other than land, buildings and infrastructure shall be marked with some type of permanent tag affixed to a readily available area of the asset. This tag must have a unique identification number that will be associated with that asset and become a part of the asset's permanent record in the "Department Asset Number" field. This identification number can be alpha, numeric or a combination of the two. For motor vehicles, the vehicle identification number (VIN) is an acceptable ID. **However, there should be a systematic and rational tagging to facilitate easy location of assets. DCAM's CAMIS system will initiate a uniform coding system for equipment (type E) assets, if the FACILITY code is filed in properly upon preparation of an FA transaction. Please call DCAM for information on this procedure. Infrastructure, buildings and land should somehow be systematically inventoried by the owning department, as they are not tagged.**

PURPOSE

To individually record and identify each asset.

RESPONSIBILITY

Department

LEASE PURCHASE

**POLICY
4-6**

A capitalized asset acquired through a lease purchase will be recorded as owned at the beginning of the lease via an FA and the cost will be the purchase price plus the cost of placing the asset in service. The lease itself will continue to be maintained in MMARS as in the past. **(See "Capital Leases" above.)**

PURPOSE

To record an asset when owned in contrast to an existing obligation.

RESPONSIBILITY

Department

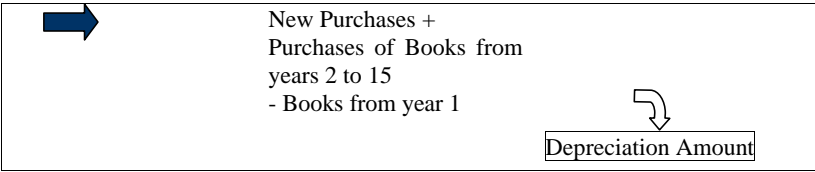
LIBRARY BOOKS

**POLICY
4-7**

Unless a book is defined as rare or historical **(in which case it is a historical treasure and should be capitalized,)** individual library books

are generally less than \$1,000. Therefore, they **should be expensed**. However, schools of higher education may choose to capitalize their collections. If so, they should “depreciate” those collections over **15 years** in a similar manner to the University system. The University of Massachusetts takes its budgetary expenditures for books for 15 years as its basic capitalization and with each new yearly total expenditure, writes off the 15th oldest expenditure in a “first in – first out” manner.

To illustrate:



If a school of higher education uses this method, it must be footnoted as a significant accounting policy in its audited financial statements.

PURPOSE	To record expenses for or to capitalize book collections.
RESPONSIBILITY	Department

CHAPTER 5 – ACCOUNTING AND MANAGEMENT

POLICY TITLES	ACCOUNTING AND MANAGEMENT, INTERNAL CONTROLS, VERIFICATION, RESPONSIBILITY FOR FIXED ASSET TRANSACTIONS, FIXED ASSET INVENTORY, RECONCILIATION, AUDIT PREPARATION, TRAINING
DATE ISSUED	May 21, 2003
POLICY #	5-1 through 5-8
PAGE(S)	4

POLICY 5-1 **All fixed assets regardless of acquisition method shall be accounted for and managed in accordance with all applicable laws and regulations of the Commonwealth.** The system(s) used to account for these fixed assets can vary based upon the type of asset and/or the cost of the fixed asset.

PURPOSE To properly reflect the Historical Cost of an asset onto the official financial records of the Commonwealth.

RESPONSIBILITY Department.

It is imperative to understand, that all assets, regardless if they are fixed or not, must be accounted for and managed in accordance with all applicable laws and regulations of the Commonwealth. All fiscal officers of the Commonwealth have this duty. Like other assets, this policy can be carried out through a sound system of internal controls, verification, an appointment of a singular, accountable, responsible officer, a periodic inventory and an independent audit and training. None of the aforementioned items is more important than the other. They are all part of a singular system called “management and responsibility.”

INTERNAL CONTROLS

POLICY 5-2 Internal Controls regarding the safeguarding of assets and the assets’ financial information shall be developed and maintained in the department’s internal control plan. This plan should be readily available for examination, consistently updated for changes in business practice and thoroughly trained to every employee who has custody or management of assets.

PURPOSE To follow proper internal control procedures regarding the safeguarding of assets and assure the integrity of the financial statements.

VERIFICATION**POLICY
5-3**

The department shall verify all acquired assets entered into the Fixed Asset Subsystem. This verification will include a check that the information entered into the system is correct and appropriate for that particular asset. The initial entry of a fixed asset record should be verified against the supporting documentation within three (3) business days of its entry into the system. Any changes needed shall be made on or before that time in the system. **If a department needs a waiver from this verification period, it must do so in writing to the Office of the Comptroller. The Comptroller's Office has sole discretion in granting this waiver.**

PURPOSE

To follow proper internal control procedures and assure the integrity of the financial statements.

COMPLIANCE

Chapter 647 of the Acts of 1989

RESPONSIBILITY FOR FIXED ASSET TRANSACTIONS**POLICY
5-4**

The Chief Fiscal Office of each department is responsible for the management of fixed assets. Management of this position includes an annual physical fixed asset inventory, the reconciliation of the results of that inventory and the reporting the results of that inventory to the proper authorities.

PURPOSE

To assign the management authority and responsibility of a Department's Fixed Assets accounting to an individual.

RESPONSIBILITY

Department's Senior Management

FIXED ASSET INVENTORY**POLICY
5-5**

There shall be an annual inventory taken of fixed assets owned by every Department. This inventory shall include at a minimum a verification of the existence and location of fixed assets owned by a Department. **This inventory shall be done on or about June 30th of each year for GAAP & non-GAAP assets. ALL CHANGES NEEDED TO ASSETS IN THE FIXED ASSET SUBSYSTEM SHALL BE ENTERED NO**

LATER THAN 3 BUSINESS DAYS AFTER JUNE 30th OF EACH YEAR.

PURPOSE To verify the existence of all listed assets recorded by a Department.

RESPONSIBILITY Department

RECONCILIATION

POLICY 5-6 There shall be a reconciliation of the fixed asset inventory against the books and records maintained by the Department, either on the Fixed Asset Subsystem or other documented methods. This reconciliation is to be done, at a minimum, on an annual basis. This reconciliation shall be available for audit either by the department's internal auditors, the State Auditor's Office or the Commonwealth's external auditors. Internal records must reconcile to the records available on the Fixed Asset Subsystem.

PURPOSE To correct any errors or irregularities on the fixed asset records and to attest to the propriety of the fixed asset reporting.

RESPONSIBILITY Department

AUDIT PREPARATION

POLICY 5-7 A Department will maintain supporting documentation of fixed asset transactions available for examination by appropriate audit organizations. Supporting documentation includes, but is not limited the following:

- All documentation supporting the acquisition cost of an asset along with reports or information substantiating its existence and location.
- All documentation supporting the relocation, improvement or betterment of an asset, including cost of such action and dates.
- All documentation supporting the disposal of assets, including any proceeds, dates of deposit of such proceeds, MMARS account(s) credited and bank accounts where deposited. This documentation should include any legal document pertaining to the disposal.

Departments may access fixed asset reports in the ViewDirect system. Ideally, a summary worksheet should be available detailing GAAP and Non – GAAP fixed asset balances as of July 1 of each year, all additions with acquisition dates and amounts, all disposals with dates and amounts and ending balance as of June 30th of the next year. Much of this information is available in the warehouse.

PURPOSE	To provide an existing audit trail and comply with the practices of internal controls.
RESPONSIBILITY	Department

TRAINING

POLICY 5-8	Departmental staff shall be properly trained on the workings of the Fixed Asset Subsystem. The Office of the Comptroller provides training classes on the policies and procedures of the system. Department managers should ensure that the appropriate individuals participate in training, including the Fixed Asset Manager. Specific training will be made available for departments that use PARS.
PURPOSE	To provide the practical and technical expertise to the individuals that will participate in asset management.
RESPONSIBILITY	Department Management and the Office of the Comptroller

CHAPTER 6 – REPORTING

POLICY TITLES	REPORTING, GAAP FIXED ASSETS, NON-GAAP FIXED ASSETS, CAPITAL LEASES, ASSETS HELD IN TRUST, AUDIT TRAIL REPORTS, WAREHOUSE REPORTS
DATE ISSUED	May 21, 2003
POLICY #	6-1 through 6-7
PAGE(S)	4

POLICY:
6-1 All fixed assets shall be reported in accordance with requirements as they relate to each group of fixed assets. These groups are GAAP Fixed Assets and Non-GAAP Fixed Assets. Each of these groups of assets has its own reporting requirements.

PURPOSE: To report those assets and only those assets within a certain asset group for a particular purpose. These Fixed Assets shall be reported to the appropriate management bodies within and outside the Commonwealth by whatever appropriate and practical means.

RESPONSIBILITY: Department Managers

GAAP FIXED ASSETS

POLICY:
6-2 GAAP Fixed Assets are comprised of all land and all historical treasures and works of art, regardless of cost.

GAAP Fixed Assets are also comprised of assets with a useful life of one year or more including:

- **Vehicles, equipment, furniture, computer software, and all electrical and computer components costing in excess of \$49,999 (\$50,000 or higher).**
- **Buildings** with a historical cost of greater than **\$99,999 (\$100,000 or higher).**
- **All NON-ROAD infrastructure** with a historical cost of greater than **\$99,999 (\$100,000 or higher) including dams, boardwalks, beach improvements, seawalls, paved pedestrian paths and bike trails, piers, water, sewer and electrical systems.**

- **ALL ROAD INFRASTRUCTURE** with a historical cost in excess of \$99,999 (\$100,000 or higher) per lane, per mile for roads, bridges, tunnels etc.
- **ALL works of art and historical treasures**, regardless of cost, acquired or donated to a department after July 1, 2001 that are not currently included in the Commonwealth's fixed assets subsystem. If acquired by donation, the historical cost is at appraised value at the date of donation.

PLEASE NOTE THAT THE INCREASE IN THRESHOLD SHOULD NOT BE CAUSE FOR INITIATING A DISPOSITION TRANSACTION (FD) IF THE ASSET IS STILL IN USE. If the asset is not in use and is still on the 852B report, an FD is required.

For a further description of infrastructure, **please see chapter 8. The University System has retained lower thresholds for GAAP fixed assets due to its recovery of costs from the federal government under guidelines established by the Office of Management and Budget Circular A-21.**

These assets are required to be on the Fixed Asset Subsystem and will be reported to the Office of the Comptroller in a manner that will allow them to be incorporated into the Commonwealth's Comprehensive Annual Financial Report (CAFR).

PURPOSE: To properly account for these assets of the Commonwealth in a manner consistent with GAAP.

RESPONSIBILITY: Office of the Comptroller and Departments

NON-GAAP FIXED ASSETS

POLICY:

6-3

Comptroller Policy Memo #310 addresses the issue of recording Non-GAAP Fixed Assets <http://www.state.ma.us/osc/accountg/marmemos/310.html> . Non-GAAP Fixed Assets are comprised of all buildings and other assets including computer software with a historical cost between \$1,000 and the GAAP Fixed Assets thresholds noted above. **Departments must maintain an inventory of these assets either on the Fixed Asset Subsystem in MMARS or on an in-house system.** [Click here for a sample inventory](#) (Excel format) for guidance.

PURPOSE: To properly account for these assets of the Commonwealth in a manner consistent with existing rules.

COMPLIANCE: Chapter 647, Acts of 1989 (Internal Controls Act) and department requirements

CAPITAL LEASES

POLICY:
6-4 Capital leases will be reported to the Office of the Comptroller for inclusion in the Comprehensive Annual Financial Report as explained through the annual GAAP instruction manual. Capital Leases will be recorded as leases by Departments in MMARS, as in the past. However, the threshold for a singular asset to be capitalized has risen to the amounts set forth above (\$50,000 for most assets, \$100,000 for buildings and non-road infrastructure and \$100,000 per lane per mile of road infrastructure).

PURPOSE: To properly account and report existing obligations, as well as assets of the Commonwealth.

RESPONSIBILITY: Department

ASSETS HELD IN TRUST

POLICY:
6-5 **Assets Held in Trust** are those assets that are owned by another individual or organization but are in the custodial care of the Commonwealth. These assets **are not to be listed or reported on the Fixed Asset Subsystem, as the Commonwealth does not own them.** They are to be reported by Departments to the Office of the Comptroller as required by GAAP.

PURPOSE: To properly account and report custodial obligations as well as assets of the Commonwealth.

RESPONSIBILITY: Department

AUDIT TRAIL REPORTS

POLICY: MMARS Reports 852A through C, Fixed Asset Inventory Reports by
6-6 Department, Organization and Asset Type, are designated as “Audit Trail Reports” by the Office of the Comptroller and must be maintained and accessed by the Department.

PURPOSE: To provide a consistent trail of required documentation for asset management and audit purposes for the departments of the Commonwealth and their respective auditors.

COMPLIANCE / RESPONSIBILITY: Departments; Office of the Comptroller as defined by Massachusetts General Laws Chapter 7A.

WAREHOUSE REPORTS

POLICY: The data warehouse is an enterprise wide “read only” database that is
6-7 designed to be used for “ad hoc” querying and reporting. Individuals using the warehouse and a department’s internal business functions dictate policies for its use. Accordingly, user needs and “local” policy or internal controls preside. Currently the warehouse has the Fixed Asset Subsystem ledger, summary(FAS1&2), betterment (FBT1&2), facility (FACL 7 FADF) and project structure (PSTR) tables.

- FAS 1 and 2 tables, listing the total asset cost by statewide fixed asset number, facility and project.
- FBT 1 and 2 tables, which includes the same information as FAS 1 and 2 **but for betterments.**
- FACL table, which establishes the fixed asset number and links the fixed asset number to its particular group.
- PSTR table, which associates the statewide fixed asset number to the PARS number.
- FADF table, which associates the statewide fixed asset number with a facility number.
-

PURPOSE: To provide guidance on warehouse data access and utilization

RESPONSIBILITY: Departments

CHAPTER 7 – COMPUTER SOFTWARE

POLICY TITLES	CAPITALIZATION OF COMPUTER SOFTWARE COSTS – INTERNALLY DEVELOPED SOFTWARE
DATE ISSUED	May 21, 2003
POLICY #	7-1 and 7-2
PAGE(S)	2

POLICY: 7-1	All computer software, whether internally or externally developed should be capitalized depending on its cost. Software that costs below \$50,000 must be inventoried as a Non-GAAP fixed asset. It is important that software is inventoried for license purposes as well. Departments are subject to liability if they install non-purchased or non-licensed software and should maintain close scrutiny on software that is installed on every computer. The method of control and inventory of software is an integral part of a department's internal control plan. Software that costs above \$50,000 but below \$1,000,000 is a GAAP fixed asset and must be reported on the Fixed Assets Subsystem as asset type K. Software that costs above \$1,000,000 is also a GAAP fixed asset and should be recorded as asset type S.
PURPOSE:	To maintain control over software, whether purchased or developed, and to properly record costs.
RESPONSIBILITY:	Department Managers

INTERNALLY DEVELOPED SOFTWARE

POLICY: 7-2	<p>Internally developed software – software that is not purchased from a retail source should be capitalized in accordance with AICPA Statement of Position 98-1, even though the Statement specifically exempts not for profit entities such as governments. The Government Accounting Standards Board (GASB) has yet to release a statement on software development. Until then, the Commonwealth has elected to follow the for-profit model, as it is systematic and rational.</p> <p>There are three phases of internally developed software implementation, which have the following functions:</p>
-----------------------	--

Preliminary Project Stage	Application Development Stage	Post – Implementation / Operation Stage
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	POST- Implementation Training
Evaluation of alternatives	Coding	Application maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel processing phase	
	PRE - IMPLEMENTATION TRAINING	
EXPENDITURE	CAPITALIZE – FA/FB	EXPENDITURE

Capitalizable costs in the application development stage include only the following:

1. External direct costs of materials and services consumed in developing or obtaining internal use computer software (e.g. consultant's fees, travel expenses associated with the development, etc.)
2. Payroll and payroll – related costs such as fringe benefits for employees **directly associated with and who devote exclusive time to the** projects of design, coding, installation and testing.
3. **Pre-Implementation Training.** These costs are capitalized, as the software would be unusable if nobody was trained to use it. However, the moment the software is accepted and ready for use, **training costs forward from that point are expenditures.**²

Other general and administrative costs **should not be capitalized.**

PURPOSE: To record proper historical cost for internally developed software.

RESPONSIBILITY: Department Managers.

² This is analogous to freight, legal costs and interest costs for business-type activities that are included as part of the cost of getting an asset ready for use.

CHAPTER 8 – INFRASTRUCTURE

POLICY TITLES	CAPITALIZATION OF INFRASTRUCTURE, CHART OF ACCOUNTS FOR INFRASTRUCTURE, USE OF PARS
DATE ISSUED	May 21, 2003
POLICY #	8-1 to 8-3
PAGE(S)	4

POLICY:
8-1

Pursuant to Government Accounting Standards Board Statement 34, Infrastructure will be required to be capitalized as a GAAP Fixed Asset from July 1, 2001 and forward. All categories of infrastructure, if in excess of the capitalization threshold of **\$100,000 for non-road infrastructure and \$100,000 per lane per mile of road infrastructure must be capitalized.**

Infrastructure will be the largest single number on the Commonwealth's balance sheet. There are fifteen groups of infrastructure. The largest dollar volume of these groups concerns road and bridge infrastructure. These include:

- Interstate roads and bridges
- Arterial roads and bridges (major non-interstate roads)
- Collector roads and bridges (major non-limited access roads)
- Local roads and bridges
- Parkways managed by the Metropolitan District Commission (MDC).

Non-road infrastructure includes:

- Boardwalks
- Fishing, Boating and Shipping Piers
- Beaches
- Seawalls
- Paved Bike Trails and Pedestrian Paths
- Other Recreational Infrastructure
- Dam and Lock Systems
- Water Systems
- Sewer Systems
- Other Utilities

All activities in these groups and other long-lived assets must be capitalized for GAAP purposes. All activity for infrastructure must be recorded in the Fixed Assets Subsystem, **if the Commonwealth retains ownership of the infrastructure**. If the infrastructure is deeded over to another government, authority or municipality, **the activity is an expenditure as a grant. All costs, from initial design and permitting to point of in-service must be included in the cost of the infrastructure asset.**

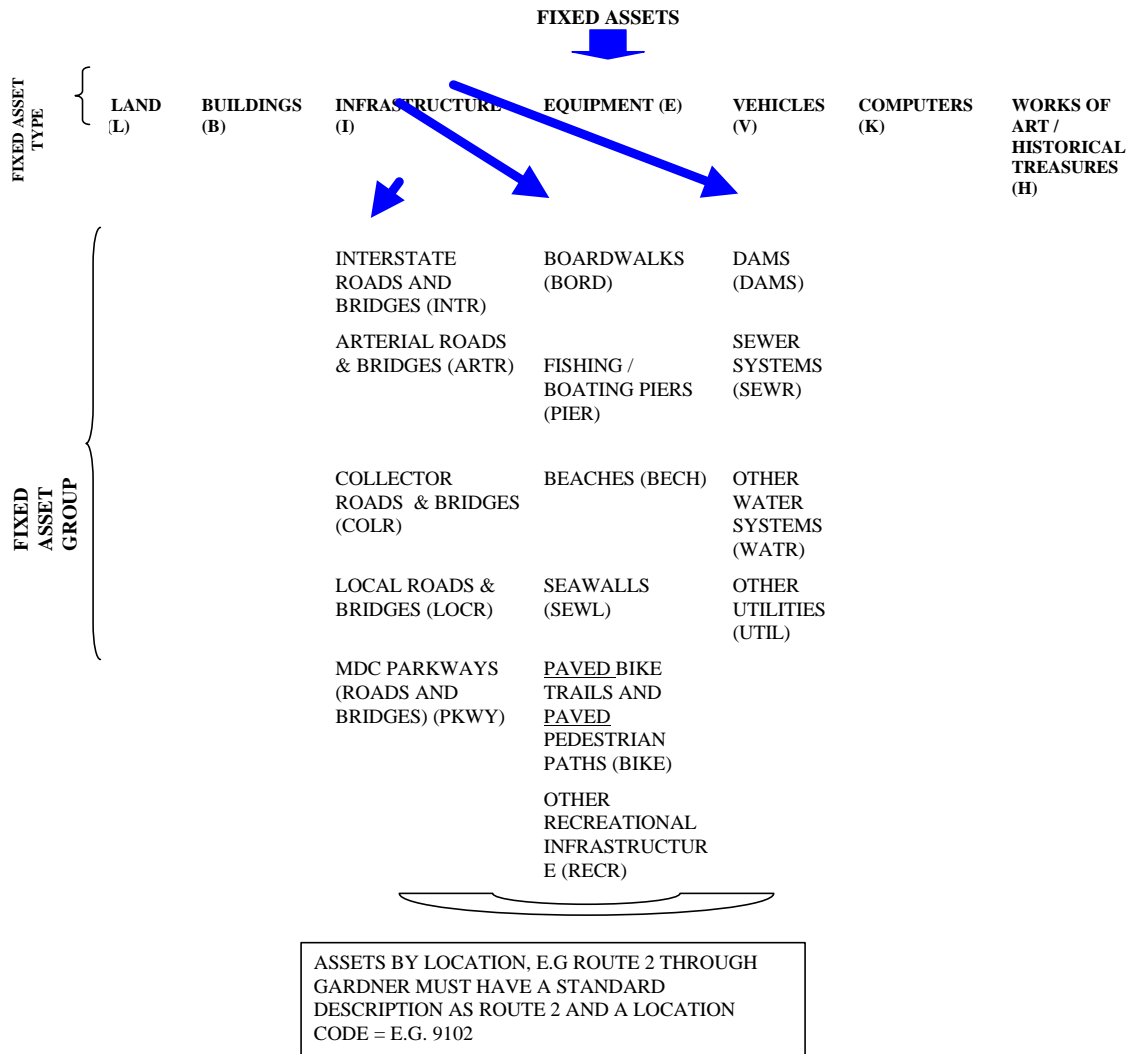
PURPOSE: To record proper historical cost for infrastructure.

RESPONSIBILITY: Department Managers.

CHART OF ACCOUNTS FOR INFRASTRUCTURE

POLICY: The Commonwealth has established a chart of accounts for infrastructure.
8-2 The Office of the State Comptroller must approve any other additional groups beyond what is below.

The chart is as follows:



PURPOSE: To maintain a coherent group of accounts for infrastructure that will facilitate management information.

RESPONSIBILITY: Department Managers.

USE OF PARS (Project Accounting and Reporting System)

- POLICY:**
8-3 To accurately record construction in progress for major projects and to facilitate capital budgeting and federal – aid billing, the use of PARS will be required for departments that are building infrastructure. PARS facilitates the ability to distinguish a project that results in a Commonwealth vs. Non-Commonwealth asset, as well as periodicity of in-service. Finally, PARS will facilitate a more exact cost on a go-forward basis.
- PURPOSE:** To allow for better capital budgeting and accounting for large infrastructure projects.
- RESPONSIBILITY:** Department Managers.

QUESTIONS AND ANSWERS

NOTE: THIS CHAPTER WILL BE MODIFIED BY ADDITIONAL QUESTIONS AND ANSWERS SUBMITTED BY DEPARTMENTS. WE WILL POST THE QUESTIONS AND ANSWERS ON THE COMPTROLLER'S WEBSITE.

- Q1.** Agency ABC is building a **new** building. To make way for the building, ABC has to demolish an existing structure. What items are included in the cost of the building?

The cost of buildings should include **all expenditures related directly to their acquisition or construction**. These costs include (1) materials, labor and overhead costs incurred during construction and (2) professional fees and building permits. All costs should be included from excavation to completion. **If there is an old building on the site that needs to be demolished for the new building to be constructed, then the cost of demolishing the old building is a cost of getting land ready for its intended use and is recorded as a land improvement.** (See the section on **Razing a Building**.)

- Q2.** Agency ABC is building a **new** road. To make way for the road, ABC has to acquire land via eminent domain. The land is absolutely necessary to complete the road. Road costs also include signage, striping, landscaping, drainage in addition to design, legal and standard construction costs. What costs are included as the cost of the road?

The cost of the road should include all of these costs to get it ready for use. Roads are designated as a "system" of a singular asset. All the costs tied to the initial operation of the road should be included. Any further maintenance on the road beyond opening *may or may not* be a betterment. (See **Betterments**.)

- Q3.** Lessor Company and Commonwealth agency ABC sign a lease agreement dated January 1, 20xx, that calls for the Lessor Company to lease equipment to ABC beginning on January 1, 20xx. The lease agreement has the following terms and conditions:

1. The term of the lease is for five years, and the lease agreement is noncancelable, requiring equal rental payments of \$25,981.62 at the **beginning of each year (annuity due basis.)**
2. The equipment has a fair market value at the inception of the lease of \$100,000, an estimated economic life of five years, and no salvage value.
3. ABC pays all the ancillary costs directly to vendors of the Commonwealth, except for property taxes of \$2,000 per year, which are the responsibility of Lessor.

	<u>Fair Market Value</u>
Equipment (Plant)	\$25,000
Land	25,000
Building	50,000
Total	<u>\$100,000</u>
7	
Capitalization allocated by Fair Market Value:	

Equipment = \$25,000 / \$100,000 fair market value x \$80,000 purchase price =	\$20,000
Land = \$25,000 / \$100,000 fair market value x \$80,000 purchase price =	20,000
Building = \$50,000 / \$100,000 fair market value x \$80,000 purchase price =	40,000
Total Purchase Price	\$80,000

- Q6.** Agency ABC purchased a computer network of 100 PC's, servers and cabling for the server for \$200,000. The average cost per PC was \$1,000. The servers, cabling and installation accounted for the other \$100,000. What should be capitalized?

The servers and the cabling needed to get the network operational should be capitalized as they are worth \$100,000. **The individual PC's are below the capitalization threshold (see Capitalization Thresholds).** Asset type would be K. If there is more than one server that is part of the singular network, and the network in total has a value of over \$100,000, the server is a necessity of the network's operation and therefore, would be capitalized.

- Q7.** Agency ABC buys a fleet of vehicles. An encumbrance has been set up previously. The purchase order was sent to CAR Corp on 12/1/x4. The cars were delivered on 12/15/x4. After modification to specifications, returns of defective vehicles, etc., the cars were finally ready for service, registered at RMV and accepted by Agency ABC on 1/15/x5. What is the date of recording?

Procurement rules state that a PV should be used after commodities or services have been received and accepted by a department to make payments.³ Therefore, a liability exists as of 12/1/x4. However, the expenditure / fixed asset would not be recorded until 1/15/x5, as this is the date of receipt and acceptance. To avoid a management comment under audit, the agency has until 1/22/x5 to record the fixed asset in MMARS.

- Q8.** The total cost of a roof is \$10,000. The original historical cost of the building in 1967 was \$10,000,000. The net book value of the building (after assumed depreciation) as of June 30, 2001 is \$1,500,000. The project will not prolong the life of the building itself – it is just a “patching” job. What is this, a new fixed asset, a betterment or a repair?

This is a repair and should be recorded as an expenditure.

- Q9.** Agency ABC is constructing a roof and structural support for the roof for \$1,000,000 on the same building detailed above. Is this a betterment, new fixed asset or a repair?

This is a betterment. As the project will not increase the useful life of the building itself, depreciation for the betterment would occur separately.

- Q10.** Commonwealth Agency ABC has acquired the rights to demolish the interior of an existing state building for \$250,000. The original historical cost of the building in 1967

³ 801 CMR 21.08

was \$10,000,000. The net book value of the building (after assumed depreciation) as of June 30, 2001 is \$1,500,000. The project will keep the outer shell of the existing building, but gut the inside of the building as it is full of asbestos. The land surrounding the building will also be re-landscaped and additional smaller structures may be built. What is the treatment of this activity?

This is a new asset that will be constructed here. The cost of demolition on the interior would be included as part of the new asset itself. The cost of re-landscaping (if material) would be a new land improvement. No gain or loss would be recorded on the acquisition of rights, as the building is still owned by the Commonwealth. Had the building been acquired by an agency outside the Commonwealth and not a component unit of the Commonwealth, a theoretical loss on disposition would have occurred for \$1,250,000.

A secondary transaction will need to take place when an old asset is *substituting* for a new one. An FD transaction will be generated to remove the old asset from the books. In the above case, that would be \$10,000,000. An adjustment to depreciation will take place to “write off” the remaining book value of \$1,500,000. Effectively, the entry would be: (NOTE: THIS IS HIGHLY SIMPLIFIED.)

New FA – Building	\$xxx,xxx,xxx (net of \$250,000 rights)	
Accumulated Depreciation – Old Building	\$8,500,000	
Depreciation Expense – Old Building	\$1,500,000	
Old Building-FD		\$10,000,000
Cash		\$xxx,xxx,xxx (net of \$250,000)
Cash	\$250,000	
Miscellaneous Revenue		\$250,000

Q11. Agency ABC is constructing a roof and structural support for the roof for \$1,000,000 on the same building detailed above. However, the useful life of the original asset will be extended because of the structural support work. **Is this a betterment, new fixed asset or a repair?**

This is a betterment as well. But, as the project will increase the useful life of the building itself, depreciation for the betterment **would be calculated on the betterment SEPARATELY for 20 years, not the 6 years remaining on the original asset, again assuming we are at June 30, 2001.**

Q12. Agency ABC is trading in a large construction vehicle for another vehicle. The trade – in had proceeds of \$1,000. The new vehicle price was \$50,000 including \$1,000 in closing costs. What is the procedure for completing this transaction in MMARS?

Two transactions have to occur, an FD to dispose of the previous asset and an FA to enter the new asset.

The entries would be as follows:

FD Transaction:

Field	Entry
Dept	ABC
R/ORG	XXXX (whatever org code is applicable)
Number	1234567 (whatever is applicable – 7 digits)
Trans Date	07052001
Acctg Prd	012002 (system generated)
Dept	ABC
FA Type	V
SW FA Number	ABCV010219971111111 (whatever the SW FA Number was assigned to the asset)
Acq Date	01021997 (assumed)
Disp Type	F (full)
Disposal Date	07052001 (remember, within 7 days!)
Asset Cost	\$40,000 (assumed)
Disposal Method	S (sold – see FADM table)
Disposed Asset Cost	\$40,000 (assumed)
Remain Asset Cost	\$0 (system generated)
Disposal Area	N/A (not allowed entry)
Disposed Units	1 (system generated-inferred from FAS1 table)
Selling Price	\$1,000
SW Asset Description	Large Construction Vehicle (system generated – inferred from FAS 1 table)

FA Transaction:

Field	Entry
Dept	ABC
R/ORG	XXXX (whatever org code is applicable)
Number	1234567 (whatever is applicable – 7 digits)
Trans Date	07052001
Acctg Prd	012002 (system generated)
Dept	ABC
FA Type	V
FA Group	CONS (Assumed – review FGRP table)
FA Location	9035 (Assumed – this vehicle is in Boston)
FUND	200 (General capital projects fund) (Assumed)
RPTG	007C (Assumed)
DEPT	ABC

ORG	XXXX (whatever org code is applicable)
PROGRAM	Courthouse (Assumed) (optional)
OBJECT	729 (Assumed)
ACQ Date	07052001
ACQ Method	P (Purchased) (Assumed)
Project Code	N/A
CIP Flag	N/A
Serial Number	VIN123456789101112131415 (Assumed)
Manufacturer	Caterpillar (Assumed)
Vendor Code	Cat12345678910 (Assumed)
Model Number	100 (Assumed)
Vendor Name	Boston Construction Vehicles (Assumed)
Plat Num	N/A
Area	N/A
User Dept	N/A
Facility	Courthouse (Assumed)
Purchase Auth	PO12345678910111 (Assumed)
In Service Date	07052001
Valuation Date	N/A
Valuation Amt	N/A
Units	1
Closing Costs	\$1,000 (Assumed)
Useful Life	5
Repl Date	07052006
Salvage Value	\$0
Depr Method	SL
Memo Asset Value	(Protected) \$50,000
SW Asset Description	2001 Hummer
Funding Source	General Capital Projects Fund
Total Asset Cost	\$50,000
I/D	N/A
Type	Protected Field
Equity Acct	Protected Field
Asset Cost	\$50,000
Dept Asset Number	Hummer_ License_ABCDEF
Dept Asset Desc	Joe's Hummer